

BANK INDONESIA REGULATION
NUMBER: 8/18/PBI/2006
CONCERNING
THE MINIMUM CAPITAL ADEQUACY REQUIREMENT
FOR RURAL BANKS

THE GOVERNOR OF BANK INDONESIA,

- Considering:
- a. whereas to build a sound, strong, productive and competitive Rural Bank sector, it is necessary to strengthen capital;
 - b. whereas the strengthening of Rural Bank capital is achieved, among others, through adjustments in capital components and risk weightings in keeping with banking practices and developments in banking activities;
 - c. now therefore it is necessary to introduce changes to the regulatory provisions concerning the Minimum Capital Adequacy Requirement for Rural Banks in a Bank Indonesia Regulation;

- In view of: :
- 1. Act Number 7 of 1992 concerning Banking (State Gazette Number 31 of 1992, Supplement to the State Gazette Number 3472), as amended by Act Number 10 of 1998 (State Gazette

Number 182 of 1998, Supplement to the State Gazette Number 3790);

2. Act Number 23 of 1999 concerning Bank Indonesia (State Gazette of the Republic of Indonesia Number 66 of 1999, Supplement to the State Gazette Number 3843) as amended by Act Number 3 of 2004 (State Gazette of the Republic of Indonesia Number 7 of 2004, Supplement to the State Gazette Number 4357);

HAS DECREED:

To enact: : THE BANK INDONESIA REGULATION CONCERNING
THE MINIMUM CAPITAL ADEQUACY REQUIREMENT
FOR RURAL BANKS.

Article 1

Rural Banks, hereafter in this Bank Indonesia Regulation referred to as RBs, are Rural Banks as defined in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, conducting conventional business.

Article 2 ...

Article 2

RBs are required to set aside minimum capital at 8% (eight percent) of risk-weighted assets.

Article 3

- (1) Capital as referred to in Article 2 consists of:
 - a. tier 1 capital; and
 - b. tier 2 capital.
- (2) Tier 2 capital as referred to in paragraph (1) may only be calculated to a maximum limit of 100% (one hundred percent) of tier 1 capital.

Article 4

- (1) Tier 1 capital as referred to in Article 3 paragraph (1) letter a consists of:
 - a. paid up capital;
 - b. agio;
 - c. funds for paid up capital;
 - d. donated capital;
 - e. general reserves;
 - f. designated reserves;
 - g. retained earnings after deduction for tax;
 - h. profit carry-forward after deduction for tax; and

- i. current year profit, calculated at 50% (fifty percent) after tax assessment.
- (2) Tier 1 capital as referred to in paragraph (1) shall be deducted by the following offsetting items:
 - a. goodwill;
 - b. disagio;
 - c. loss carry-forward; and
 - d. current year loss;
- (3) The calculation of profit or loss for items as referred to in paragraphs (1) and (2) shall exclude the effect of any deferred tax.

Article 5

Tier 2 capital as referred to in Article 3 paragraph (1) letter b consists of:

- a. reserves formed from fixed assets revaluation;
- b. allowance for earning asset losses to a maximum of 1.25% (one point two five percent) of risk-weighted assets;
- c. hybrid/quasi capital, subject to the following requirements:
 - 1) not guaranteed by the RB, having same status as capital and paid up in full;
 - 2) may not be repaid or withdrawn at the initiative of the owners without approval from Bank Indonesia;

- 3) has the same status as capital in the event that RB losses exceed retained earnings and reserves, including tier 1 capital, even though the RB has not been liquidated; and
 - 4) payment of interest may be deferred if the RB is sustaining losses or profits are insufficient to pay loan interest.
- d. subordinated loans to a maximum of 50% (fifty percent) of tier 1 capital, subject to the following requirements:
- 1) a written agreement exists between the RB and the lender;
 - 2) prior approval from Bank Indonesia. In this regard, when the RB applies for approval, the RB must submit the repayment schedule for the subordinated loan;
 - 3) not guaranteed by the RB and paid up in full;
 - 4) minimum tenor of 5 (five) years;
 - 5) early repayment must be approved by Bank Indonesia and after such repayment the RB capital shall notwithstanding remain sound; and
 - 6) last right of claim in event of liquidation, after settlement of all outstanding loans (same status as capital).

Article 6

- (1) RBs may pay up additional capital in the form of fixed assets subject to approval from Bank Indonesia.

- (2) Applications for approval for payment of capital in the form of fixed assets as referred to in paragraph (1) shall be submitted to Bank Indonesia, enclosing the following documents:
 - a. appraisal of the fixed assets by an independent appraisal company;
 - b. approval of the General Meeting of Shareholders or Meeting of Members; and
 - c. proof of announcement in at least 2 (two) daily newspapers.
- (3) Appraisal by an independent appraisal company as referred to in paragraph (2) letter a shall include at least details of value or price, type, status and domicile.
- (4) The amount of fixed assets used for additional payment of capital as referred to in paragraph (1), and any added inventory, shall be subject to the applicable regulatory provisions concerning RBs.

Article 7

RBs are prohibited from distribution of profit if the distribution would result in a condition in which the RB capital fails to comply with the ratio referred to in Article 2.

Article 8

Risk-weighted assets as referred to in Article 2 consist of RB balance sheet assets that are assigned weightings commensurate to the risk inherent in the individual asset account.

Article 9

- (1) Any RB failing to comply with the provision referred to in Article 2 shall be liable to administrative sanctions according to the applicable Bank Indonesia regulatory provisions.
- (2) Any RB failing to comply with the provisions referred to in Article 7 shall be liable to administrative sanctions as referred to in Article 52 of Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998 as follows:
 - a. written warning;
 - b. downgrading of score in the rating calculation; and/or
 - c. listing of the management and/or shareholders in the list of persons failing the fit and proper test for RBs as stipulated in the applicable Bank Indonesia regulatory provisions.

Article 10

Subsidiary provisions for this Bank Indonesia Regulation shall be stipulated in a Circular Letter of Bank Indonesia.

Article 11

This Bank Indonesia Regulation does not apply to RBs formerly incorporated as Village Credit Institutions (BKDs) pursuant to *Staatsblad* Number 357 of 1929 and *Rijksblad* Number 9 of 1937.

Article 12 ...

Article 12

With the enactment of this Bank Indonesia Regulation, Decree of the Board of Managing Directors of Bank Indonesia Number 26/20/KEP/DIR dated 29 May 1993 concerning the Minimum Capital Adequacy Requirement is revoked and declared no longer valid for RBs.

Article 13

This Bank Indonesia Regulation shall come into force on 1 December 2006.

Enacted in: Jakarta

Dated: 5 October 2006

THE GOVERNOR OF BANK
INDONESIA,

BURHANUDDIN ABDULLAH

STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER 75 OF 2006

DPBPR

ELUCIDATION
TO
BANK INDONESIA REGULATION
NUMBER: 8/18/PBI/2006
CONCERNING
THE MINIMUM CAPITAL ADEQUACY REQUIREMENT
FOR RURAL BANKS

GENERAL REVIEW

To build and enhance capacity for providing services to the public and especially micro and small enterprises, it is necessary to strengthen the capital of Rural Banks, among others, through compliance with capital adequacy commensurate with business risks.

To this end, it is necessary for changes to be made to the capital structure of RBs that better reflect a condition of sounder capital in order to support business activity in the real sector and thus promote national economic growth.

ARTICLE BY ARTICLE

Article 1

Self-explanatory.

Article 2 ...

Article 2

Self-explanatory.

Article 3

Paragraph (1)

Self-explanatory.

Paragraph (2)

If tier 1 capital is negative, tier 2 capital shall be 0 (zero).

Article 4

Paragraph (1)

Letter a

“Paid up capital” is defined as capital paid up by the owners in real and effective terms and approved by Bank Indonesia.

For RBs incorporated as Cooperatives, paid up capital consists of principal savings, mandatory savings and endowments as stipulated in the regulatory provisions concerning Cooperatives.

The paid up capital component does not include recognition of subscribed capital stock originating from shareholder receivables as referred to in the applicable Statement of Financial Accounting Standards (PSAK).

Letter b ...

Letter b

“Agio” is defined as the positive increment of capital received by an RB as a result of the share price rising above par value.

Letter c

“Funds for paid up capital” are funds paid up in real terms into the account of the RB at a commercial bank and held in escrow for the purpose of additional capital, but not supported by legal requirements for categorisation as paid up capital, such as the convening of a General Meeting of Shareholders or Meeting of Members or legal approval of the articles of association by the competent authority.

Use of funds for paid up capital must be approved by Bank Indonesia.

If according to the findings of Bank Indonesia:

- a. funds for paid up capital originating from owners and/or prospective owners fail to meet requirements, and/or
- b. a prospective owner fails to meet the requirements for a shareholder,

the funds may not be considered a component of capital and may be withdrawn.

Letter d ...

Letter d

“Donated capital” is defined as capital recovered from donations of shares, including capital from donations by external parties received by a bank incorporated as a cooperative.

Letter e

“General Reserves” are defined as reserves formed from funds set aside from retained earnings and/or earnings after tax with approval from the General Meeting of Shareholders or Meeting of Members in accordance with the applicable laws and regulations.

Letter f

“Designated reserves” are defined as a portion of profit after tax set aside for a specific purpose as approved by the General Meeting of Shareholders or Meeting of Members in accordance with the applicable laws and regulations.

Letter g

“Retained earnings after tax” are defined as the balance of earnings after deduction for tax not allocated for distribution as decided in a General Meeting of Shareholders or Meeting of Members.

Letter h ...

Letter h

“Profit carry-forward after tax” are defined as profit carry-forward after deduction for tax unless permitted to be offset against loss under the applicable taxation regulations and for which use has not been decided by a General Meeting of Shareholders or Meeting of Members.

If an RB has a loss carry-forward balance, the entire loss shall be offset against tier 1 capital.

Letter i

“Current year profit” is profit after deduction for allowance for earning asset losses.

Deduction for tax assessment shall be excluded if permitted to be offset against loss under the applicable taxation regulations.

Paragraph (2)

Letter a

“Goodwill” is defined as an intangible asset consisting of the difference between the cost and the asset value of a company.

Letter b ...

Letter b

“Disagio” is defined as the negative increment of capital received by an RB as a result of the share price falling below par value.

Letter c

Self-explanatory.

Letter d

“Current year loss” is defined as loss after deduction for allowance for earning asset losses.

Paragraph (3)

Deferred tax is a transaction arising in consequence to the application of Statement of Financial Accounting Standards (PSAK) concerning Accounting of Income Tax.

Exclusion of the impact of deferred taxes from the profit or loss statement for the current year means that the deferred tax assets are not calculated into risk-weighted assets and are assigned a risk weighting of 0% (zero percent).

Article 5

Letter a

“Reserves from revaluation of fixed assets” is defined as reserves formed from the increment of revaluation of fixed assets as approved by the Directorate General of Taxation.

Reserves ...

Reserves from revaluation of fixed assets may not be capitalised into paid up capital and/or distributed as bonus shares and/or dividend.

Letter b

“General Allowance for Earning Asset Losses” is defined as Allowance for Earning Assets classified Current as referred to in the Bank Indonesia regulations concerning Earning Asset Quality and Formation of Allowance for Earning Asset Losses for Rural Banks.

Letter c

Self-explanatory.

Letter d

The required 5 (five) year tenor for subordinated loans represents the shortest period for such loans to be put to full and effective use.

Subordinated loans that may be included as capital are subordinated loans deducted by amortisation, calculated by the pro rata method.

Restructured subordinated loans shall be calculated at fair value after restructuring. The impact of restructuring shall be recognised in accordance with the applicable accounting standards.

Article 6

Paragraph (1)

“Fixed assets” are defined as tangible assets acquired ready for use or in previously constructed form, used for the business of the RB, not intended for sale within the framework of the RB business and having a useful life of more than 1 (one) year.

Paragraph (2)

“Independent appraiser” is defined as an appraisal company that:

- a. is not a related party of the RB;
- b. is not a business group member of a debtor of the RB;
- c. conducts appraisal business according to a professional code of ethics and the rules established by the competent institution;
- d. uses appraisal methods based on professional standards of appraisal published by the competent institution;
- e. holds a business licence from the competent institution for operating as an appraisal company; and
- f. is registered as a member of an association recognised by the competent institution.

Paragraph (3)

Self-explanatory.

Paragraph (4) ...

Paragraph (4)

Self-explanatory.

Article 7

“Distribution of profit” is defined as including but not limited to payment of dividends, payment of bonuses to management and payment of incentives of a non-operational nature.

For example:

If during a particular period the RB management demonstrates good performance but the condition of capital does not permit a bonus to be paid to management, the bonus payment may not be made until the capital of the RB is sufficient to permit the bonus to be paid.

Article 8

Self-explanatory.

Article 9

Paragraph (1)

The applicable laws and regulations include but are not limited to the regulatory provisions concerning rating of RBs and supervisory actions taken against RBs under special surveillance.

Paragraph (2)

Self-explanatory.

Article 10

Self-explanatory.

Article 11

Self-explanatory.

Article 12

Self-explanatory.

Article 13

Self-explanatory.